

STATE OF WASHINGTON

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MIKE KREIDLER
STATE INSURANCE COMMISSIONER



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OFFICE OF
INSURANCE COMMISSIONER

In The Matter Of:

FEDERAL INSURANCE COMPANY,)	
PACIFIC INDEMNITY COMPANY,)	
GREAT NORTHERN INSURANCE CO.,)	No. D07-289
EXECUTIVE RISK INDEMNITY, INC.,)	CONSENT ORDER
VIGILANT INSURANCE COMPANY,)	LEVYING A FINE
NORTHWESTERN PACIFIC INDEMNITY CO.,)	
Authorized Insurers,)	

To: Chubb & Son
A division of Federal Insurance Company
Manager
15 Mountain View Road
Warren, NJ 07061-1615

Comes Now the Insurance Commissioner of the State of Washington, pursuant to the authority set forth in RCW 48.02.080 and RCW 48.05.185, and having reviewed the official records and files of the Office of the Insurance Commissioner, makes the following:

FINDINGS OF FACT:

1. Federal Insurance Company, Pacific Indemnity Company, Great Northern Insurance Company, Executive Risk Indemnity, Inc., Vigilant Insurance Company, and Northwestern Pacific Indemnity Company are property and casualty insurers authorized to do business in the State of Washington and are wholly owned subsidiaries of Chubb & Son, a division of Federal Insurance Company, Manager, and are hereafter referred to as "Chubb" or "Companies."
2. The Office of the Insurance Commissioner (OIC) conducted a market conduct examination of the Companies covering the time period between June 1, 2002, and May 31, 2003. This examination included a review of the areas of agent activities, rate and form filings, underwriting and rating, and cancellations and non-renewals.
3. The examination report for the market conduct examination of Chubb covering the period June 1, 2002, through May 31, 2003, was adopted by the Insurance Commissioner by

Findings, Conclusions, and Order Adopting Report of Market Conduct Examination No. G04-80, entered October 28, 2004, which order is final.

4. The Companies were previously subject to a market conduct examination performed by the OIC covering the period from January 1, 1998, through September 30, 1998. Insurance Code violations found in said examination resulted in the entry of Consent Order Levying Fine No. D 2000-04 and Order Imposing Suspended Fine No. D03-147.
5. In the most recent examination, the examiners found 114 umbrella policies that were written with terrorism premiums that had been disapproved by the OIC and seven policies that were not rated according to the rate filing that applied at the time the policies were written. As a result of the OIC examiners' finding, \$65,946.41 in premium overcharges was returned to insureds. Similar violations were also noted in the OIC's previous market conduct examination.
6. In the most recent examination, the examiners found binders in 11 policy files which did not identify the insuring company or identified the insuring company incorrectly. These were repeat violations.
7. In the most recent examination, the examiners found 6 files which did not contain documentation to support debits or credits or did not explain why eligible policies were not considered for schedule rating. These violations also repeated violations found in the OIC's previous market conduct examination.

Based upon the foregoing Findings of Fact, the Commissioner makes the following:

CONCLUSIONS OF LAW

1. RCW 48.05.185 authorizes the Insurance Commissioner to impose a fine in lieu of the suspension or revocation of a company's license.
2. The Companies committed the following violations of Washington law:
 - a. The Companies' use of rates that were not in accordance with the Companies' rate filings then in effect violated RCW 48.19.040.
 - b. The Companies' use of binders that failed to identify the actual insuring company or that identified the wrong company violated RCW 48.05.190.
 - c. The Companies' failures to document the application of commercial rating schedules and failures to provide the reasons for applying schedule rating debits or credits violated WAC 284-24-100.

CONSENT TO ORDER

NOW, THEREFORE, the Companies consent to the following in consideration of their desire to resolve this matter without further administrative or judicial proceedings, and the Insurance Commissioner consents to settle the matter in consideration of the Companies' payment of a fine and such other terms and conditions as are set forth below:

1. The Companies consent to entry of the foregoing Findings of Fact and Conclusions of Law as they pertain to these facts, consent to the entry of this Order, and waive further administrative or judicial challenge to the OIC's actions related to the subject matter of the Order.
2. Within thirty (30) days of the entry of this Order Chubb agrees to pay to the OIC a fine in the amount of \$250,000.
3. Chubb agrees to carry out the provisions of, and fully comply with, the Compliance Plan set forth in Exhibit A.
4. Failure to pay the fine set forth in paragraph two shall constitute grounds for the revocation of the Companies' certificates of authority and for the recovery of the full fine.

EXECUTED this 28th day of August, 2007.

Chubb & Son
a division of Federal Insurance Company
Manager

By: Amelia C. Lynch

Printed Name: AMELIA C. LYNCH

Typed Corporate Title: Senior Vice President

ORDER OF THE INSURANCE COMMISSIONER

NOW, THEREFORE, pursuant to the foregoing Findings of Fact, Conclusions of Law, and Consent to Order, the Insurance Commissioner hereby orders as follows:

1. Federal Insurance Company, Pacific Indemnity Company, Great Northern Insurance Company, Executive Risk Indemnity, Inc., Vigilant Insurance Company, and Northwestern Pacific Indemnity Company are ordered to pay a fine in the amount of \$250,000.
2. The payment liability and compliance obligations of the Companies under this Order are joint and several;
3. The Companies shall comply with and carry out the Compliance Plan set forth in Exhibit A hereto, which Compliance Plan is hereby incorporated into this Order by reference as though fully set forth herein; and
4. The Companies' failure to pay the fine within the time limit set forth above shall result in the revocation of the insurers' Certificates of Authority, and in the recovery of the amount of the fine through a civil action brought on behalf of the Insurance Commissioner by the Attorney General of the State of Washington.

ENTERED AT TUMWATER, WASHINGTON, this 30th day of August, 2007.

MIKE KREIDLER,
Insurance Commissioner

By: Charles D. Brown
Charles D. Brown
Staff Attorney
Legal Affairs Division

COMPLIANCE PLAN

A. Purpose of and Consideration for the Plan

Federal Insurance Company, Pacific Indemnity Company, Great Northern Insurance Company, Executive Risk Indemnity, Inc., Vigilant Insurance Company, and Northwestern Pacific Indemnity Company (hereinafter "Chubb") enter into this Compliance Plan with the Office of the Insurance Commissioner ("OIC") for the State of Washington to promote compliance by the Companies with the requirements of the laws and regulations of the State of Washington. Chubb is also entering into a Consent Order No. D07-289 with OIC ("Consent Order"). This Plan is attached to the Consent Order and is fully incorporated into said Consent Order, and Chubb's obligations under this Compliance Plan are made a part of the Consent Order and constitute obligations under said Consent Order as though this Compliance Plan and the Companies' obligations under it were fully set forth in said Consent Order.

B. Term of Plan

The effective date of this Plan shall be the date of entry of the Consent Order, on which date this Plan shall become final and binding. Chubb's obligations under this Compliance Plan shall continue from its effective date until the last required compliance audit for 2009 is completed and the results have been reported to the OIC.

C. Compliance Plan

1. Internal Audit

- a. Information to OIC: The Companies will conduct three annual audits, the first during the fourth quarter of 2007 and the second and third during the fourth quarters of the following two years. The Companies have established an annual audit plan and have taken corrective actions with regard to the violations included in the Consent Order and as set out in Amelia C. Lynch's July 25, 2007, letter to Deputy Insurance Commissioner Beth Berendt and Chubb's own compliance plan attached thereto, which is hereby incorporated within the terms of this Compliance Plan. Copies of each internal audit report on the annual audits to be performed pursuant to this Plan shall be provided to Christine Tribe of the OIC Legal Affairs Division within thirty (30) business days of the report being issued. Reports shall be issued no later than thirty (30) calendar days following the completion of each audit.
- b. Internal Audit Obligations: Chubb shall provide their staff conducting the audit with the Consent Order and shall direct their audit personnel to include the areas of violation in the annual audits conducted pursuant to this Compliance Plan.

Exhibit "A"

- c. Audit Scope: Each annual audit shall encompass at least fifty (50) files, or all of files if there are less than fifty available, for each of the violations listed in the Consent Order. Each file audited must involve Washington insureds.
- d. Correction of Exceptions: Any exception or deficiency identified by the internal audits conducted pursuant to this Plan shall be corrected. Chubb agrees to advise OIC within thirty (30) days of the audit report of any corrective measures contemplated to address any such exceptions or deficiencies or any other areas requiring correction. The OIC shall then review these measure(s) and notify Chubb of any comments associated thereto within thirty (30) days. Unless the OIC requests modifications to the proposed corrective measure(s), Chubb shall have thirty (30) days from the end of the OIC's review period to implement the measure(s). However, should Chubb need longer than thirty (30) days to correct any exception or deficiency, the Companies may contact the OIC Legal Affairs Division and request an extension to the thirty (30) day requirement.

D. Miscellaneous

- 1. Authority to Enter Plan: Chubb gives express assurance that it has the authority to comply fully with the terms and conditions of this Plan and that it will provide written notification to the OIC within ten (10) days of any material change to this authority or of any violation of this Plan.

Chubb & Son
a division of Federal Insurance Company
Manager

BY: Anelia C. Lynet

TITLE: Senior Vice President

DATE: August 28, 2007